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Questions and Answers

FEDERAL MILK MARKETING ORDER PROGRAM REFORM

Q: *Why did USDA undertake this reform effort?*

A: Consolidation of Federal milk orders was mandated by the 1996 Farm Bill, which restricts the number of milk orders to no fewer than 10, and no more than 14. Consolidation is required by April 4, 1999. The Bill also authorized the Secretary to fundamentally revisit all issues related to milk marketing orders.

Q: *What is a Federal Milk Order?*

A: A milk order is a regulation voluntarily initiated and approved by a majority of producers in an area, which places requirements on the first buyers or handlers of milk from dairy farmers. One of those restrictions is that handlers must pay an assigned minimum price according to how milk is utilized. Milk is priced under a classified pricing plan which divides milk into classes according to use. Dairy farmers receive a uniform price that reflects the use value to handlers who are regulated under the same order. Also, a milk order requires that all payments by handlers be pooled and the same average price is paid to individual dairy farmers or cooperative association.

Q: *Who is regulated by a Federal milk order?*

A: Milk handlers are the only persons regulated, not the actual farmers. Handlers generally are processors who distribute fluid milk products in a designated marketing area.

Q: *How were the proposed marketing area boundaries determined?*

A: An analysis of distribution and procurement patterns was developed to determine which order areas were most closely related. Proposals and comments submitted by the public throughout the development process also were taken into account.

Q: *What Class I Pricing Plan does the proposed rule recommend?*

A: The proposed rule offers two options for reforming the Class I (fluid milk) pricing surface. Both options recognize a location-value of milk -- that is, the cost involved with transporting milk. Option 1A is a set of Class I prices that vary by location (called a "price surface"), which closely reflects the current pricing structure, but makes adjustments for recent changes in economic conditions. The more market-oriented Option 1B, which is the Administration's preferred alternative, still provides minimum prices for higher valued fluid use, while relying more on the market to generate higher prices when needed to attract a sufficient supply of milk to market.

Q: *What is the Basic Formula Price?*

A: The basic formula price (BFP) is used to determine order prices for milk used in manufactured products and the minimum Class I and II prices for milk pooled under the Federal orders. The current BFP is based on a survey of prices paid for manufacturing grade (Grade B) milk by plants in Minnesota and Wisconsin, updated monthly.

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Q: *Why does the BFP need to be replaced?*

A: The continuing decline in the volume of Grade B milk produced in the Upper Midwest and nationally suggests that the current way in which milk is priced may no longer be a statistically reliable indicator of the value of milk used in manufactured products.

Q: *How would the proposed BFP replacement work?*

A: The proposed BFP replacement would be based on a multiple component pricing system that would:

- S Determine butterfat prices per pound for milk used in Classes II, III and IV from a butter price.
- S Determine protein and other solids prices for milk used in Class III products from cheese and whey prices.
- S Determine a nonfat solids price for milk used in Class IV products from nonfat dry milk product prices.
- S Compute a Class I price mover from a six-month declining average of the higher of the Class III or Class IV skim milk prices for the second preceding month and add a fixed Class I differential to the result to determine a Class I price for each market for the second following month.
- S Compute the Class II skim milk price by adding \$0.70 to the Class IV skim milk price.

Q: *How is milk classified under a milk order?*

A: Milk is classified according to its use by a handler. At present, there are 4 classes of milk. Generally, fluid milk products are Class I, soft, spoonable, products are Class II, hard cheeses and butter are Class III, and nonfat dry milk constitutes Class III-A.

Q: *How will these classification change under the proposed rule?*

A: Under the proposed rule, all milk used in eggnog will be Class I. At present, only milk used in lowfat eggnog is Class I. Also, milk used in cream cheese will be Class II, rather than Class III. Finally, a new Class IV, which would replace Class III-A, has been established including all milk used to make butter and any dried milk.

Q: *What happens next, now that USDA has announced the proposed rule?*

A: With regard to the proposed rule, the public will have 60 days in which to comment on any and all aspects of the rule. After the comment period, USDA will consider all public input in its efforts to fashion a final rule. In addition, a referendum will be held on each of the implementation of the new milk orders, with a two-thirds majority necessary for passage.

A National Hearing on the issue of flooring the BFP will be held in Washington on February 17, 1998. The hearing will be held before an Administrative Law Judge. Testimony will be taken, witnesses cross-examined, and a record will be established upon which a decision will be made on how to best proceed with flooring the BFP and the level at which the BFP should be floored.